

Low Employment and GDP in the Balkans



The Future of the Welfare State in the Western Balkans
Belgrade, June 2018

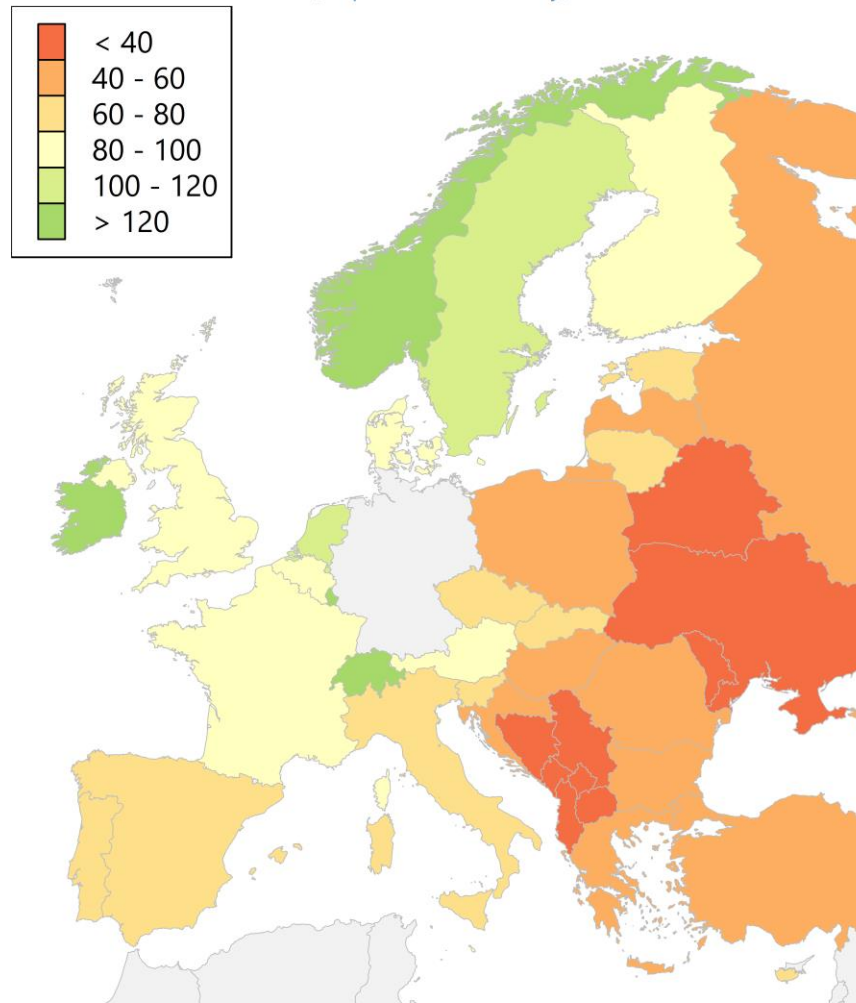
Bas B. Bakker
Senior Regional Resident Representative
for Central, Eastern and Southeastern Europe

Western Balkans amongst poorest part of Europe



GDP PPP per capita in 2017

(As percent of Germany)

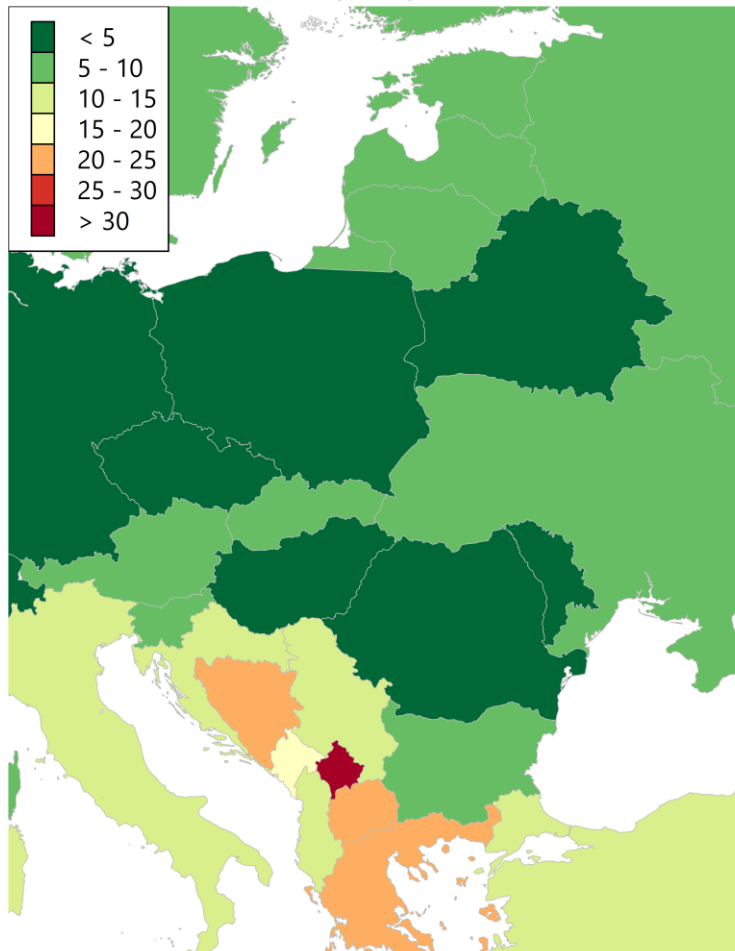


Unemployment rate is high; employment rate is low



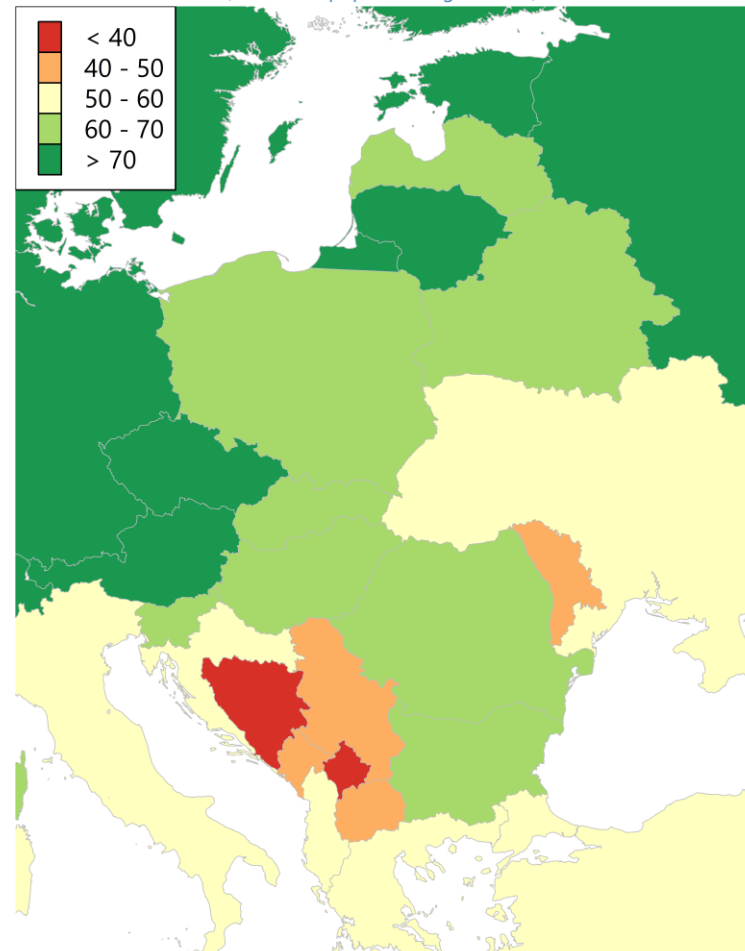
Unemployment Rate in 2017

(Percent)



Employment Rate in 2016

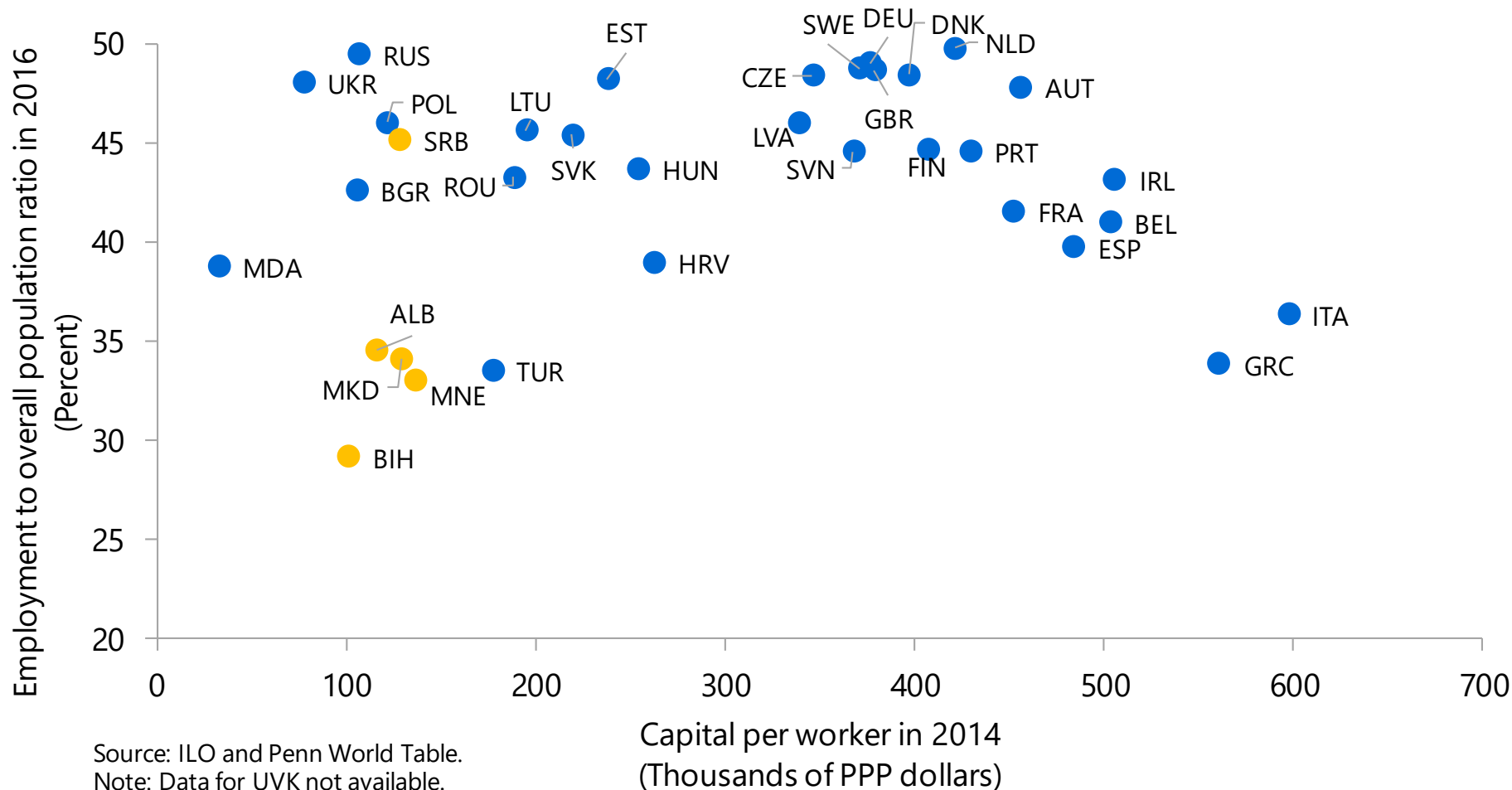
(Percent of population ages 15-64)



Western Balkans is poor because capital stock per worker is low and too few people work



Capital per Worker vs. Employment to Population Ratio

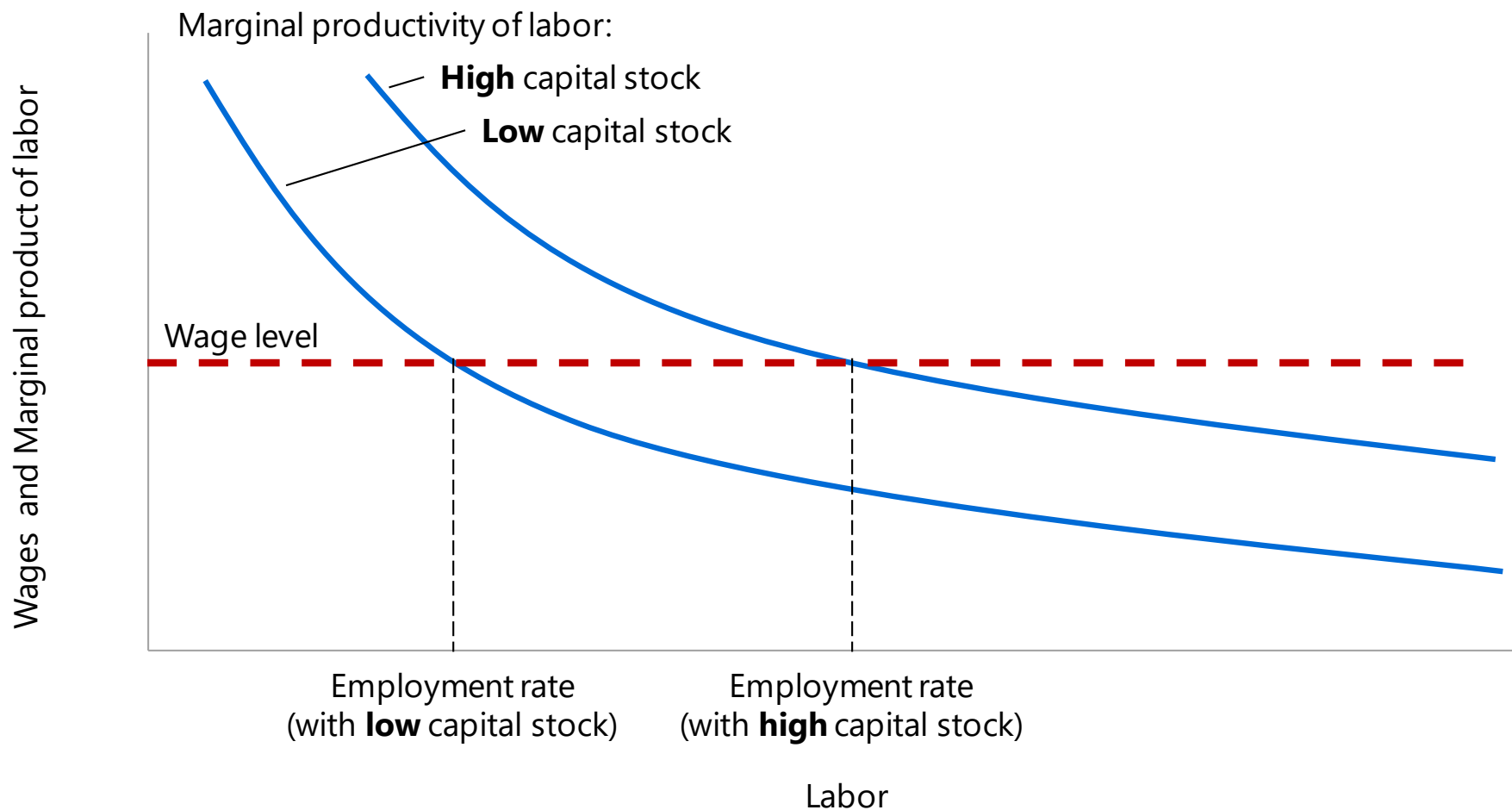


Source: ILO and Penn World Table.
Note: Data for UKR not available.

Low employment rate is the result of interaction of low capital stock and high wages



Employment rate, capital stock and wages

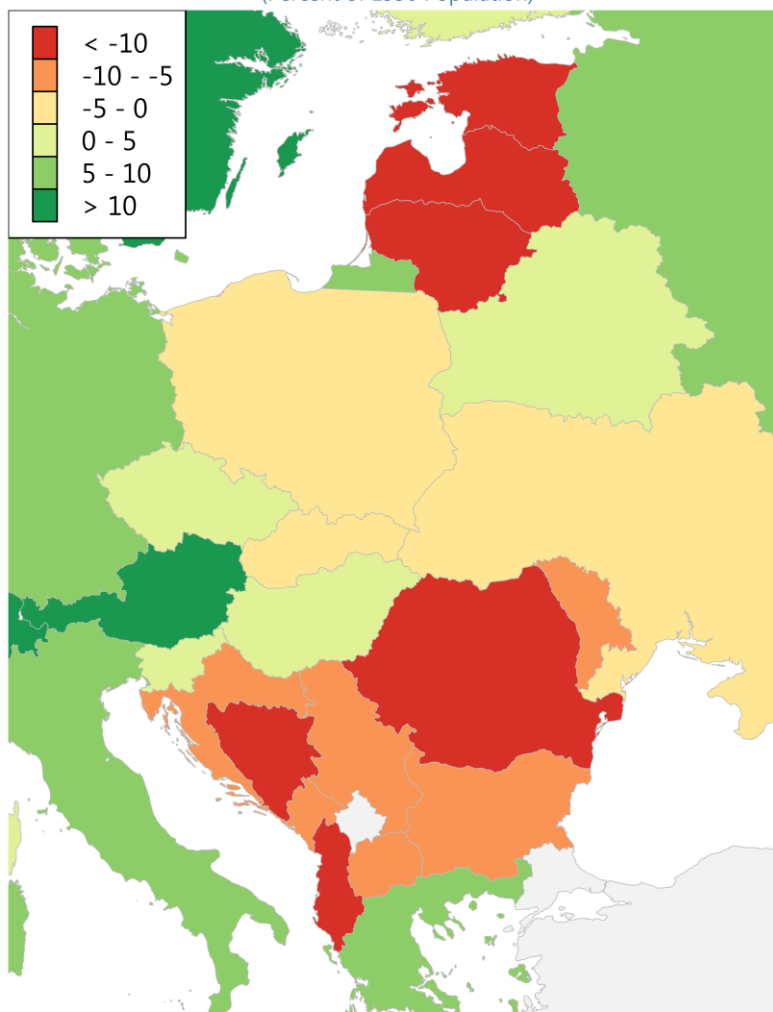


Large scale emigration has pushed up reservation wages



Net Migration Rate 1990-2015

(Percent of 1990 Population)



How to boost output and employment?

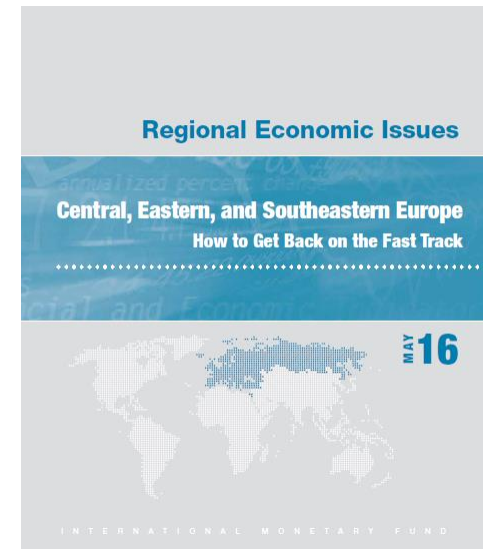


- Higher capital stock needed
- => More investment, including in infrastructure
- Higher TFP would help as well!

What can be done to boost investment and create jobs so people stay?



- Improve investment climate
 - Better protection of property rights
 - Improve legal systems and other government services
 - Address infrastructural gaps
 - Fighting the informal economy
- Address efficiency gaps in public investments and tax collection



Social investments need to be weighed against other needs

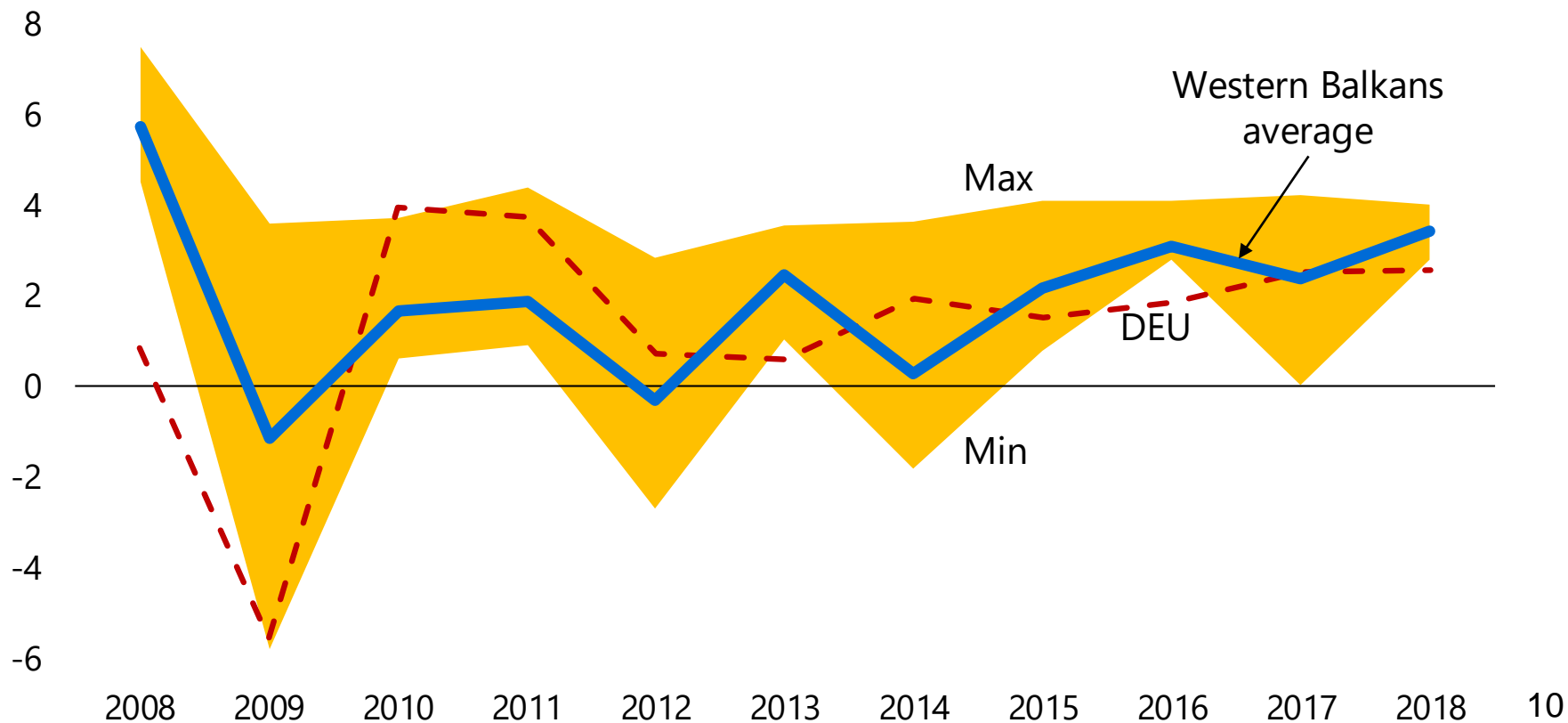


- According to 2016/17 Global Competitiveness Report, region ranks
 - 85 out of 138 on infrastructure
 - 69 on health
 - 58 on education
- You cannot do everything: too high fiscal deficits and debt risk triggering macro instability
- When there is no macro stability there is no growth
- Without growth unemployment will remain high

After recessions in 2009 and 2012, the region is growing again, supported by activity in main trading partners



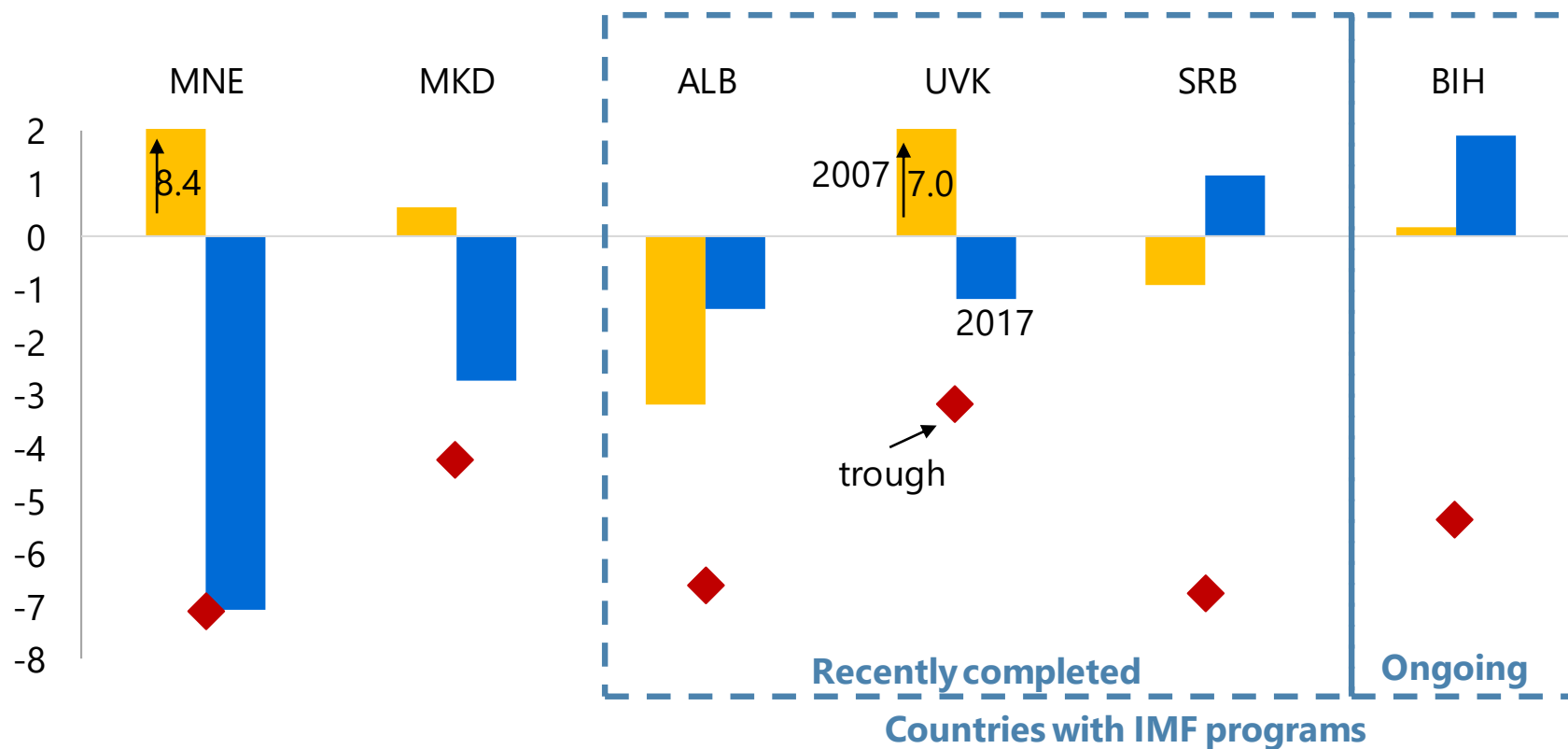
GDP Growth in Western Balkans
(Percent)



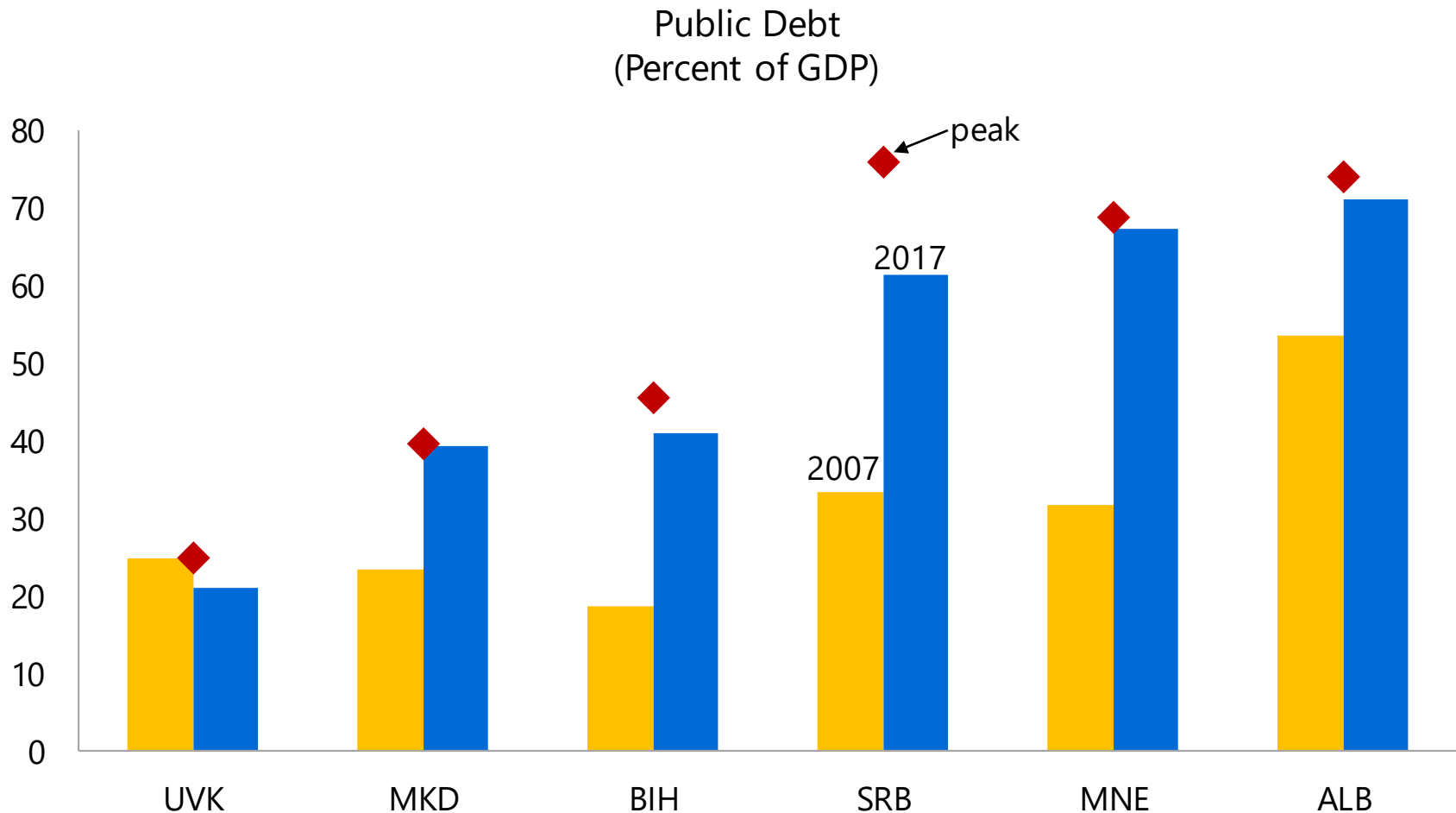
Fiscal deficits have come down, particularly in countries with IMF Programs



General Government Balance
(Percent of GDP)



However, public debt is far above pre-crisis levels





Thank you