

Conveying Messages for Impact

Examples and possible revisions: Writing Webinar, December 2020

Let's look together at the first text on Structural Reform Priorities from the ERPs for 2019-2021

4.1 Identification of key obstacles to growth and competitiveness and inclusive growth

Maintaining Albania's economic recovery in the framework of the medium-term macro-fiscal balance is very important to ensuring future economic development. The fiscal consolidation and reduction of public debt is essential for reducing debt-related vulnerabilities that hamper growth and cause macroeconomic instability. Fiscal consolidation will continue, but it will need to be supported by deep structural reforms in many areas of the economy. (62)

Transport and energy infrastructure, owing to the fact that they have not been fully modernised or constructed, and the existence of non-physical barriers to trade within the regional markets, limit the degree of integration. Liberalisation of the energy market continues to be among the reform priorities of the GoA, along with the diversification of the energy sources, reducing energy dependence from imports and modernise the land transport infrastructure, namely railwaylines. As regards ICT, the development of broadband infrastructure is being given due importance. In the energy sector, the progress made to reduce distribution losses and by improving bill collection rate, in spite of the promising results thus far, needs further consolidation. The reform for diversifying energy sources is crucial for having sustainable and growth-promoting public finances. (127)

Regulatory **burdens to businesses** continue to be obstacles for the development of SME. There have been noticeable efforts undertaken to tackle the high level of non-performing loans; access to finance is still an impediment for business development. Addressing the institutional and regulatory barriers faced by businesses, simplifying rules, procedures and other procedural requirements, with particular emphasis on improving predictability and transparency of business regulation, are crucial to business development. (69)

Regional **trade** integration requires a systemic approach toward trade facilitation. Engaging in facilitating trade - at the border and beyond - puts much emphasis on policy coordination and harmonization, strengthen dialogue with private sector and strengthen the capacities of all border agencies...

4.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH

An important determinant of economic trends in all Western Balkan countries and thereby BiH as well is the unfavourable structure of GDP in these countries. Namely, the current model of economic development in these countries has mainly been based on the increase in final consumption financed from abroad, while the share of investments and exports which represent the key assumption for sustainable economic growth is at a rather modest level. This model of economic growth has brought radical structural changes within the economies of the Western Balkans, the most important being the rapid de-industrialization process, the decline in agricultural production and a significant increase in service delivery. Premature deindustrialization in this region manifested through the fall in employment and output, which resulted in poor export performance and high trade deficits that ultimately undermine the competitive position of these countries in international markets. One of the main reasons for low competitiveness in both the countries of the region and in Bosnia and Herzegovina is the weak production base, i.e. the low share of the manufacturing industry and the export of goods in the GDP. This state of affairs is a consequence of global economic developments and inadequate economic policies in the countries of the Western Balkans that based their economic growth, as already mentioned, on the growth of domestic consumption financed mainly by cash inflows from abroad. As for Bosnia and Herzegovina, it is worth mentioning that thanks to the increase in production it managed to partially improve the production base, which confirms the increase in its share in the structure of GVA by 3 pp to around 13%, as by the end of 2017. (274)

However, countries like BiH whose economic development strategy is based on exports need to intensify the process of reindustrialization, i.e. raise the share of the manufacturing...

4.1. Identification of key obstacles to competitiveness and inclusive growth

This section reports on developments with respect to the identified key growth constraints since last ERP submission. Compared to the last ERP, access to finance is no longer considered a binding constraint and the regulatory environment has improved. This means that other constraints have now become relatively more important to address. (51)

Access to finance has been improved through the diminishment of interest rates and support in collateral provisioning. Since 2014, when the first constraints analysis for ERP was conducted, average interest rates have declined from over 9.2% to 6.8% in December 2017. In addition, the annual growth of loans to non-financial corporations, picked up from 4.3% in 2014, to 9.3% in 2017. In 2014, the total value of loans amounted to €1.88 billion or around 32.5% less than the total amount of loans in 2017. In this year the total value of loans was €2.49 billion, representing an annual increase of 11.5%. The major drivers of such a surge were the upward trend in the demand for loans coupled with the reduction of average interest rates and the extension of maturity of loans. In 2017, lending to all economic sectors has increased, but the most notable growth were in construction (26.1%), agriculture (13.4%) and the production sector (9.3%). Collateral requirements are significantly strict: banks require nearly three

times the value of the loan as collateral, whereas 90% of all loans require collateral. Nevertheless, better access to finance and financial deepening, particularly for start-ups and higher risk economic activities, remain an important impetus to elevating Kosovo's growth potential, and will be further addressed by measures to improve the protection of property rights including through legalization of unpermitted construction and to improve court efficiency in economic disputes. (234)

Business environment strongly improved, but challenges remain. In the 2019..

4.1 Identification of key obstacles to competitiveness and inclusive growth

In the previous years, the Economic Reform Programme (ERP) outlined detailed diagnostics of the obstacles to competitiveness and further economic growth and the development of Montenegro, and included reform measures for their elimination. Having in mind the structural nature of these obstacles, their elimination is of a long-term nature. (49)

Although the reports produced by the majority of reference international institutions state that Montenegro's competitiveness has improved, obstacles have been identified and need to be eliminated in order to ensure its further improvement. Therefore, the report on Montenegro of April 2018, produced by the International Monetary Fund (IMF), specified challenges to competitiveness and the need to strengthen Montenegro's external position. To that end, it recognised the necessity of addressing structural issues in the labour market and the need to increase labour productivity. The lack of a legislative framework for public-private partnerships was recognised by the IMF as one of the shortcomings in the further strengthening of the competitiveness of the economy. (111)

The 2019 Doing Business Report produced by the World Bank identified the following obstacles to the improvement of doing business and enhancement of the overall competitiveness of the Montenegrin economy: "business start-ups", "protection of minority investors", "cross-border trade", "contract enforcement", "addressing insolvency issue" and "getting electricity". (46)

The EC report on Montenegro of spring 2018 sets out that the Montenegrin economy is assessed as moderately prepared "to face competitive pressures within the EU". The EC recognises that development of key infrastructure, in a fiscally responsible manner and in full compliance with the rules of competition and public procurement, is important for the further strengthening of competitiveness. It also recognises the development of human capital, emphasising that further education reform is necessary so that the knowledge and capabilities of each individual in the education system match the needs of the labour market...

4.1. Identification of key obstacles to competitiveness and inclusive growth

In 2018, after the weak growth at the beginning of the year, reflecting the developments in the construction sector, i.e. the weaker dynamics in the realization of public capital expenditures, positive movements were registered in the second and third quarter in the more significant sectors in the economy. Thus, the activity in the industrial sector continued to grow with a stronger intensity, with a part of the traditional activities also having a positive contribution. Growth in the service sector has also been accelerated, with a significant contribution of trade activity, while construction sector activity has seen a significant slowdown of the downward trend. The average growth in the first three quarters of 2018 was 2.3%. Analysed by sectors, the economic growth in this period was due to the positive achievements in the service and industrial sector, while construction and the agricultural sector had a negative contribution to the growth. Foreign direct investments reached EUR 315.6 million in the first three quarters of the year, significantly exceeding the total FDI realized in 2017. Positive developments on the labour market continued, with the employment rate in the third quarter grew by 0.9 pp. on annual basis and accounted for 45.1%, while the unemployment rate dropped to 20.8%. (205)

The clear EU perspective and the policies the Government implements, contributed to economic recovery, though still very fragile. In order the growth to be sustainable in a longer term, there is a strong need for pursuing structural reforms that shall boost investments, productivity and job creation in high technology intensity industries. The analysis of high-frequency data for the first nine months of 2018 shows that the share of manufactured products in total exports is about 90%. Export growth is mainly driven by the capacities in the free economic zones specialized in technology-intensive sectors. Also, manufacturing, ...

4.1. Identification of key obstacles to competitiveness and inclusive growth

Serbia's economy grew continuously during 2018. The service sector as the growth engine, together with high yields in agriculture and continued construction recovery, are the main drivers of such economic trends. The high contribution of industry to economic growth from the beginning of the year went down as a consequence of declining energy source production, so in the second half of 2018 industry had a negative impact on overall growth. Domestic demand continued to grow, driven by higher personal spending and investment. This is supported by the growth of real wages and employment in the private sector, higher retail trade volume and the growth in construction and capital investment. Rising foreign direct investment inflow contributed to exports increase. (118)

After the successful implementation of fiscal consolidation, in order to preserve the achieved results and ensure further growth and improvement of competitiveness, a continued implementation of key structural reforms is of great significance. The implementation of structural reforms in various areas will intensify in the following period, in order to eliminate the key obstacles/challenges in certain areas, identified based on all available analyses and data. (66)

Based on the fiscal results from the previous four years, in the following period investment in infrastructural projects is expected to increase. Investment shortfall significantly constrained the development in energy and transport. Investment in energy infrastructure will contribute to higher efficiency and diversification of supply sources. The road and railway infrastructure requires continuation of the modernisation, improved maintenance and safety, coupled with further alignment of legislation with the EU acquis in both areas. (73)

The conditions are favourable for the development of agriculture, one of the key sectors in Serbia, but with increasingly frequent crises caused by nature, leaving ever more serious consequences (floods, droughts, hail and other). The unfavourable structure of agricultural holdings (farm fragmentation without enough...

4.1. Identification of Key Obstacles to Competitiveness and Inclusive Growth

As a significant component of sustainable growth TFP contributed substantially high growth performance of the economy between 2002-2006 periods. However, its contribution and viability have perished since then. When we examine productivity difference in firm level, it is more apparent that productivity gap between large and small firm has been widening. One of the reason why TFP is low can be attributed to gap at which big firms are six times more productive than small firms. (76)

Due to lack of producing productivity oriented policies, small sized firms cannot take a share in value chains and create economics of scale. Inadequate usage of technology in their production process results in underperforming and hence value added created by them cannot exceed a certain frontier. Therefore, they demand a lower quality workforce for their low level of value creation which leads them to be enclosed in an inefficiency cycle. In the official documents, this issue has been repeatedly expressed along with the importance of productivity gains. First priority transformation program of the 10th Development Plan is “Program for Enhancing Productivity in Manufacturing” which addresses strong and direct policy responses to productivity challenges Turkey has. Similarly, importance of productivity gains in the economy is strongly stated in MTP (2019-2021). (129)

Financial flows to emerging markets has been slowing down, causing high exchange rate volatility and deterioration in confidence to economies. Turkey has been facing negative outcomes of these events since second half of 2018. In this high depress environment where interest rate hikes in USA and trade wars, Turkey's, like any other EM economy, risk premia has boosted and TL has depreciated substantially. This situation makes import dependency and external financing needs, which are the constraints of growth, more important. In this regard, as it is stated in MTP (2019-2021) that improving business and investment...