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CASE – Center for Social and Economic Research

Overview: This week, our guest experts from Balkanistyka.org discuss the recent EU-Western Balkans summit in Sofia and the progress of the Western Balkan countries towards membership in the Bloc.

A Promise for Rapid Transformation of the Balkans

By: Olimpia Dragouni and Agnieszka Kawczyńska, Balkanistyka.org

17 May 2018 was a special day for the Western Balkans (Albania, Bosnia and Hercegovina [BiH], Kosovo, [FYR] Macedonia, Montenegro, and Serbia; hereafter: WB6). On that day, the European Union (EU) – WB6 summit took place in Sofia, confirming officially and institutionally the ongoing process of EU enlargement (BiH and Kosovo have had the status of potential candidates since 2016, while the other WB6 countries are already candidates). The EU is the biggest investor in the Balkans, with EUR 8.9 billion invested between 2007 and 2017 and a further EUR 1.07 billion scheduled for 2018 in pre-accession funds on top of over EUR 10 billion invested since 2013 by the EU companies. The EU is interested in the growth and modernization potential of the WB6 countries, as well as their 18 million potential consumers. In 2016 alone, trade exchange between the EU and WB6 amounted to EUR 43 billion.

Photo: Sarajevo, Bosnia and Herzegovina. Flickr, David Bailey, Attribution-ShareAlike 2.0 Generic (CC BY-SA 2.0)

The summit talks were summarized in the Sofia Declaration and Priority Agenda. The documents clearly state that enhanced cooperation with the UE will require a display of good will from WB6. Indeed, Macedonia is now closer than ever to ending its naming dispute with Greece, which could see the latter lifting its veto on Macedonian accession. Likewise, a compromise needs to be achieved on the Serbia-Kosovo line regarding the past of military conflict and the Serbian reluctance to recognize its former province as an independent state. Kosovo and Albania in turn need to tackle problems with organized crime.

President of the European Council Donald Tusk summarized the summit by saying: “I don’t see any other future for the Western Balkans than the EU. There is no other alternative, there is no plan B.” With WB6 now apparently putting aside many of their – until now – “non-negotiable” political paradigms, they might well share Tusk’s view. The most obvious incentive is the economic dimension of the planned enlargement. Stripped of the diplomatic *savoir vivre*, the buzz words such good neighborly relations, regional stability, and mutual cooperation may be perceived not as goals in itself, but as necessary steps on a rational and pragmatic path to accession.

The economy-oriented idea of "connectivity" placed at the heart of the funding scheme is a realistic chance for rapid and stable transformation of the region. Improvement of the living standards is the centerpiece of the Declaration/Agenda, targeting youth as main recipients of support by enhancing vocational education and training, doubling the Erasmus+ funding, establishing a "Western Balkans Youth Lab", and addressing the brain drain. The situation of WB6 youth is best expressed by the World Bank's labor market data: unemployment rates in the 15-24 cohort reached 47.7% in 2015, with the long-term unemployment rate for the population over 15 years old as high as 15.2%, and the share of long-term unemployment at 72%. Plans to introduce an intra-regional mobility scheme and the Regional Economic Area, as well as to facilitate regional trade and push forward BiH and Serbia's accession to the WTO might help tackle these problems.

The living standards are also to be improved by increasing safety on the roads, cutting costs and time of intra-regional transport, and creating thousands of jobs in transport-related investment projects: Blue Corridor (Adriatic-Ionian Motorway along the coasts of Slovenia, Croatia, Bosnia and Hercegovina, Montenegro, Albania, and Greece), the Peace Highway connecting Niš (Serbia), Priština (Kosovo), and Durres (Albania), modernization and expansion of the port in Durres, and modernization of railroads in Macedonia, Montenegro, and Serbia. Equally promising is the introduction of the Digital Agenda lowering roaming costs and technical assistance for digital investments, including in broadband infrastructure.

The Agenda stresses the importance of energy-related investments: integrating WB6's electricity market into that of the EU, expanding the EU Energy Union, diversifying sources, including renewables (hydropower), and signing an agreement on a planned Bulgaria-Serbia gas interconnector.

The energy sector mirrors the geopolitical entanglement of the region and is as much an issue of economy as of regional and global security, reflecting the changes in the international (im)balance. Integrating WB6 with the EU energy market and diversifying energy sources implies not only opening up to safe and green energy, but also dispersing power relations in the region. Today, the Turkish and Russian presence on the local energy markets is strong and growing. For example, the Trans Adriatic Pipeline and the Trans Anatolian Pipeline will connect Azerbaijan with European markets, strengthening the position of Turkey as a transit country. Moreover, Russia and Turkey plan to extend the TurkStream gas line – which provides Russian gas to Turkey – north through Greece, Macedonia, and Serbia (the Tesla pipeline) and west through Greece (the Poseidon project). Russia has been sending its gas to Yugoslavia since 1978; today it has an important gas hub in Serbia, and Gazprom holds a majority share in the Banatski Dvor gas storage since 2009, distributing gas in Serbia and abroad (to BiH and Hungary). Gazprom also holds a majority share in the gas and oil company NIŠ (including refineries) and since 2015 continues to build a gas-based Thermal Power Plant in Pančevo. All this means that Russia has a stake in underming the WB6 EU enlargement process.

Among the threats to the enlargement are also strong disagreements within the EU itself: the French President Emmanuel Macron believes the EU should be reformed and grow stronger before accepting new states, while the President of the European Commission Jean-Claude Junker suggests Serbia and Montenegro need to become members as soon as possible in order to prevent another war in the Balkans. Junker's view is supported by Poland, Italy, and Austria, while the Netherlands and Germany express concerns about crime and corruption in WB6, but are also in favour of the enlargement for the sake of the region's and the EU's stability. Both the EU and WB6 countries have therefore a lot to work on before the next summit, scheduled for 2020, takes place in Croatia.

This week: Sold production of industry increased in April by 9.3% y/y, compared to 1.6% y/y in March. In the first four months of the year (Jan-Apr 2018), it was higher by 5.5% than in the same period last year. Retail sales increased by 4.0% y/y in April, compared to 8.8% y/y a month earlier. The slower growth was mainly due to Easter and the fact that shops were closed on four out of five Sundays in April in line with a recently introduced regulation. According to the EU's Labour Force Survey, the unemployment rate fell to a record low of 4.2% in Q1 2018.

GDP (Q1 2018)

5.1% y/y (est.)

Up from 4.9% in Q4 2017

Inflation (April 2018)

1.6% y/y

Up from 1.3% in Mar 2018

Unemployment (Apr 2018)

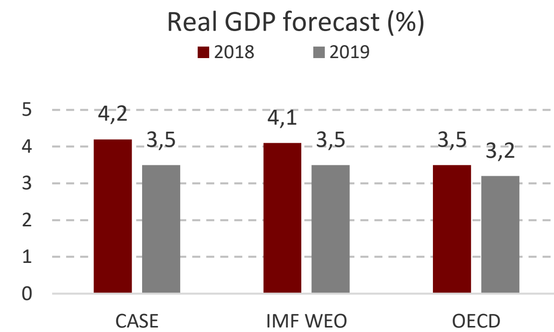
6.3%

Down from 6.6% in Mar 2018

NBP Base rate

1.5%

From 2% in Mar 2015



This week: Egypt and Russia signed a 50-year agreement to establish a Russian industrial zone in the Suez Canal Corridor to build an international hub for producers with simple access to African and European markets. The industrial zone will be established on an area of 5.25 million square meters and is expected to attract up to USD 7 billion in investments. The construction of the first phase of the industrial zone will cost around USD 190 million, with Russia responsible for coordinating projects, product manufacturing, and service-providing.

GDP (Q1 2018)

1.3% y/y (est.)

Up from 0.9% in Q4 2017

Inflation (April 2018)

2.4% y/y

Unchanged since Mar 2018

Unemployment (Mar 2018)

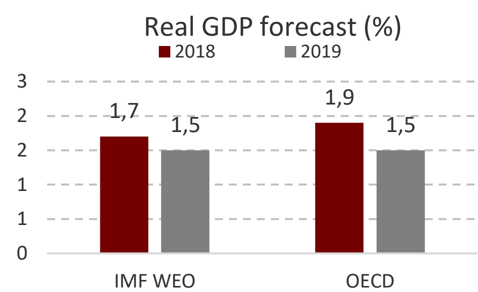
5.0%

Unchanged since Feb 2018

CBR Base rate

7.25 %

From 7.5% in Feb 2018



This week: Germany's tax revenues received by the federal government and regional governments increased in April, a monthly report by the Ministry of Finance shows. German fiscal authorities recorded tax income of EUR 50.9 billion in April, an increase of 3.9% over the same month last year. The Ministry attributed this development to the high momentum in the German economy, which is boostinged tax receipts.

GDP (Q1 2018)

2.3% y/y

Down from 2.9% in Q4 2018

Inflation (April 2018)

1.4% y/y

Down from 1.5% in March 2018

Unemployment (Mar 2018)

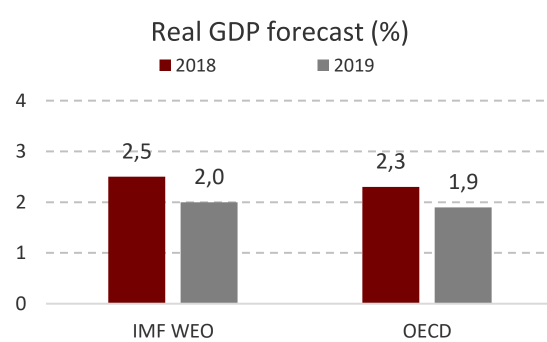
3.5%

Down from 3.8% in Feb 2018

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015



This week: The State Statistics Service of Ukraine informed that industrial production in April 2018 increased by 3% y/y. In the period January-April 2018, industrial production growth reached 2.6% compared to same period of the last year. In particular, the mining industry showed an increase by 3.1%, the supply of electricity, gas and steam by 3.6%, and the processing industry by 2.2%.

GDP (Q1 2018)

3.1% y/y

Up from 2.2% in Q4 2017

Inflation (Apr 2018)

13.1% y/y

Down from 13.2% in Mar 2018

Unemployment (Q1 2018)

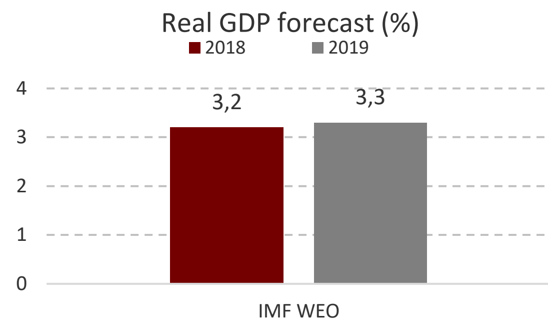
9.9%

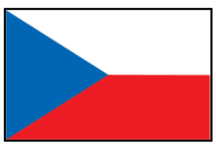
Up from 8.9% in Q4 2017

NBU Base rate

17.0%

From 16.0% in Jan 2018





This week: The International Institute for Management Development (IMD) has published its competitiveness ranking for 2018, which sees Czech Republic drop to 29th place, a rank lower compared to the last year. The main reasons for the drop are the tight labor market, uncertainty surrounding the formation of the government, ailing relations with the European Union, and shortcomings in infrastructure and the education system. On the other hand, public finance and foreign exchange reserves improved while costs of bureaucracy dropped.

GDP (Q1 2018)

4.5% y/y (est.)

Down from 5.5% in Q4 2017

Inflation (Apr 2018)

1.9% y/y

Up from 1.7% in Mar 2018

Unemployment (Q1 2018)

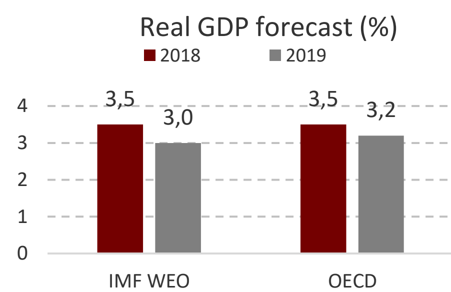
2.4% (est.)

Unchanged since Q4 2017

CNB Base rate

0.75%

From 0.5% in Jan 2018



This Week: Hungary has moved up five spots to 47th place in this year's World Competitiveness Ranking compiled by the International Institute for Management Development (IMD). The country's competitiveness was boosted by a reduction in corporate taxes and growth in overall productivity. IMD classified investments, the costs of living, and exports among Hungary's economic strengths, while among the challenges: uncertainties over the reform plans of the new government, a high dependency on the EU funds, and administrative burdens.

GDP (Q1 2018)

4.7% y/y (est.)

Up from 4.4% in Q4 2017

Inflation (Apr 2018)

2.3% y/y

Up from 2.0% in Mar 2018

Unemployment (Q1 2018)

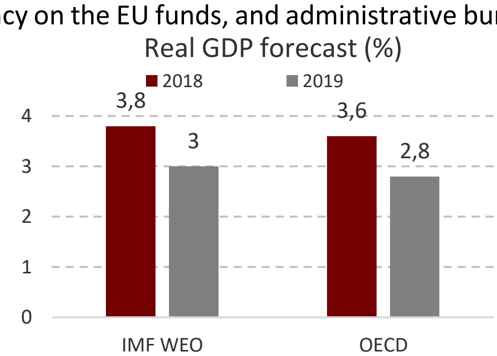
3.9%

Up from 3.8% in Q4 2017

MNB Base rate

0.9%

From 1.05% in May 2016



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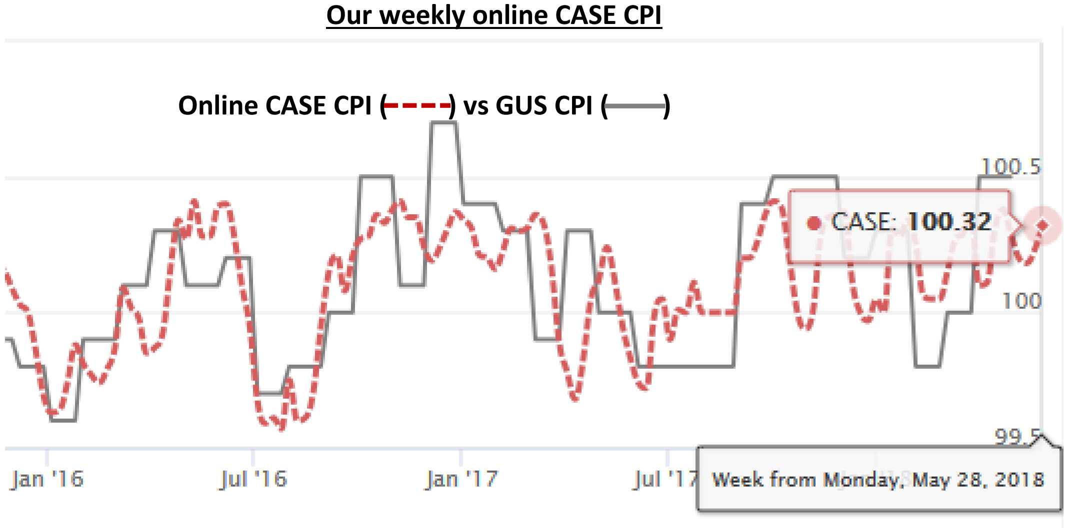
The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

Our weekly online CASE CPI



Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2018	4.2	4.1	4.9	3.7	2.5
2019	3.5	3.6	3.3	3.8	2.3
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2018	4.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

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